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ACTION WHA-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CTME-00	DINT-00	DODE-00
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	UTED-00	VC-00	FRB-00	H-01	TEDE-00	INR-00	IO-00
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	OMB-01	OPIC-01	PC-05	PM-00	PRS-00	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	TRSE-00	USIE-00	EPAE-00
	PMB-00	DRL-02	G-00	NFAT-00	SAS-00	/015W	

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P 262112Z MAR 01
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC PRIORITY 0566
INFO USDOC WASHDC
DEPT OF ENERGY WASHDC
AMEMBASSY LIMA
AMEMBASSY CARACAS
AMEMBASSY QUITO
AMEMBASSY LA PAZ
AMEMBASSY PANAMA
CIA WASHDC
DIA WASHDC
NSC WASHDC
USCINCSO MIAMI FL

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STATE FOR WHA/AND, WHA/ESPC
STATE PASS OPIC FOR DMORENESE
STATE PASS EXIMBANK FOR AMERICAS DIVISION
COMMERCE FOR 4331/IEP/OLA/AND/JANGLIN AND FOR
3134/USFCS/IOI/WH/DLUTTER
ENERGY FOR GARY WARD AND ERIKA BENSEN

E.O. 12958: N/A
TAGS: EPET, ENRG, ECON, CO
SUBJECT: FROM A BILL TO A LAW: NATURAL GAS PRICE
LIBERALIZATION

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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: WILLIAM E LANDFAIR
DATE/CASE ID: 13 JAN 2004 200203418

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1. (U) SENSITIVE BUT UNCLASSIFIED. PLEASE PROTECT ACCORDINGLY.

2. (SBU) SUMMARY: THE NATURAL GAS PRICING BILL, CURRENTLY IN THE COLOMBIAN SENATE, IS COLOMBIA'S BEST BET TO CREATE AN ATTRACTIVE INVESTMENT CLIMATE IN NATURAL GAS. WITH 6.9 TRILLION CUBIC FEET IN PROVEN RESERVES, COLOMBIA HAS THE POTENTIAL TO BE A NATURAL GAS EXPORTER, BUT THE CURRENT REGULATORY ENVIRONMENT, WHICH CONTROLS WELLHEAD PRICES AND EXPORTS, HAS DISCOURAGED PRODUCTION TO SUCH A POINT THAT COLOMBIA WILL HAVE TO IMPORT NATURAL GAS BY 2006. THE BILL HAS RECEIVED STRONG OPPOSITION, HOWEVER, FROM COLOMBIA'S ENERGY REGULATORS AND CURRENT NATURAL GAS USERS. DURING THE MARCH 20 SENATE DEBATE, INTERVENTION BY MINISTER OF ENERGY VALENCIA COSSIO SAVED THE BILL FROM DYING BY POSTPONING THE VOTE PENDING FURTHER REVIEW OF THE BILL. POSITIVE FEEDBACK FROM VALENCIA AND SOME CHANGES IN THE OPPOSITION CONTINGENT KEEP OIL AND GAS
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SECTOR OBSERVERS FEELING POSITIVE ABOUT A FUTURE CHANGE
IN COLOMBIA'S NATURAL GAS REGULATIONS. END SUMMARY

THE SITUATION ON THE GROUND

3. (U) COLOMBIA HAS 6.9 TRILLION CUBIC FEET (TCF) OF PROVEN NATURAL GAS RESERVES. TEXACO, OPERATING IN THE GUAJIRA DEPARTMENT, IS THE ONLY COMPANY CURRENTLY PUMPING OUT NATURAL GAS FOR PUBLIC CONSUMPTION. THE GAS IS SOLD WITHIN COLOMBIA TO THERMAL POWER GENERATORS AND INDIVIDUAL CONSUMERS AT A REGULATED RATE ONE THIRD OF US NATURAL GAS PRICES. THE OTHER GAS RESERVES ARE PUMPED OUT WITH OIL, MOSTLY BY BP/AMOCO IN THE CUSIANA/CUPIAGUA FIELD, AND RE-INJECTED TO MAINTAIN PRESSURE LEVELS.

4. (U) COLOMBIA'S CURRENT REGULATORY ENVIRONMENT FOR NATURAL GAS CREATES ECONOMIC DISINCENTIVES TO EXPLOIT THE RESERVES. THE FIXED WELLHEAD PRICE IS COMBINED WITH A NO-USE, NO-PAY CONTRACT STRUCTURE WITH THE THERMAL GENERATING PLANTS. LIMITATIONS ON EXPORTS MAKE IT IMPOSSIBLE TO GUARANTEE EXPORT CONTRACT DELIVERY. ALTHOUGH THERE IS A LAW WHICH STATES THAT THE COLOMBIAN ENERGY REGULATORY COMMISSION (CREG) MAY CONSIDER PRICE LIBERALIZATION IN 2005, IT HAS SHOWN LITTLE INCLINATION DO THIS SO FAR. THERE ARE ALSO LAWS ON THE BOOKS WHICH

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LIBERALIZE WELLHEAD PRICES FOR ANY NEW DISCOVERIES, BUT
THIS LEAVES OUT THE ALREADY KNOWN 6.9 TCF. AT CURRENT
PRODUCTION LEVELS, COLOMBIA WILL BECOME A NATURAL GAS
IMPORTER BY 2006. THE LACK OF INCENTIVES IS SUCH THAT
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INTERNATIONAL FINANCIAL INSTITUTIONS ARE NOT INTERESTED
IN FINANCING INTERNATIONAL GAS PIPELINE CONSTRUCTION
PROJECTS.

A POSSIBLE SOLUTION

5. (U) IN RESPONSE TO THE LACK OF EXPLOITATION OF
NATURAL GAS, IN 2000, THE THEN MINISTER OF ENERGY AND
MINES CARLOS CABALLERO AND THE CURRENT ECOPETROL
PRESIDENT ALBERTO CALDERON DRAFTED A NATURAL GAS
PRICING BILL WHICH WOULD IMMEDIATELY LIBERALIZE
WELLHEAD PRICES ON EXISTING AND FUTURE RESERVES,
ELIMINATE THE LEGAL REQUIREMENT FOR NO-USE, NO-PAY
CONTRACTS, AND ALLOW FOR GUARANTEED EXPORT CONTRACTS.
THE BILL HAS PASSED THROUGH THE HOUSE OF
REPRESENTATIVES AND THE FIFTH COMMITTEE (ENERGY) OF THE
SENATE. THE BILL ALREADY RECEIVED A FIRST READING AT
THE CLOSE OF THE DECEMBER SESSION.

6. (SBU) THIS NEW BILL IS IMPORTANT FOR THE INVESTMENT
FUTURES OF BOTH TEXACO AND BP/AMOCO IN COLOMBIA.
BP/AMOCO'S OIL WELLS IN CUSIANA/CUPIAGUA WILL STOP
PRODUCING IN THE NEXT 6-10 YEARS (ALTHOUGH IT DOES HAVE

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TO SECSTATE WASHDC PRIORITY 0567
INFO USDOC WASHDC
DEPT OF ENERGY WASHDC
AMEMBASSY LIMA
AMEMBASSY CARACAS
AMEMBASSY QUITO
AMEMBASSY LA PAZ
AMEMBASSY PANAMA
CIA WASHDC
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AN AGGRESSIVE EXPLORATION PROGRAM IN ADJACENT AREAS.)
PRODUCTION OF THE ASSOCIATED NATURAL GAS FOUND IN THE
SAME WELLS WOULD EXTEND THE USEFULNESS OF THE FIELDS
AND FACILITIES AN ADDITIONAL 5-10 YEARS. BP /AMOCO HAS
REQUESTED A USTDA FEASIBILITY STUDY OF THE PROJECT AND
THE POSSIBLE UTILIZATION OF A REHABILITATED PIPELINE
ALREADY ON THE GROUND. FOR TEXACO, PASSAGE OF THE BILL
WILL ENSURE APPROVAL THIS YEAR OF A 200 MILLION USD
INVESTMENT PROJECT TO EXPAND THEIR CURRENT FIELDS, AND
WILL PROVIDE THE IMPETUS TO NEGOTIATE THE RENEWAL OF
THEIR CURRENT EXPLORATION CONTRACT (SET TO EXPIRE IN
2004.) BOTH BP/AMOCO AND TEXACO HAVE BEEN IN TALKS
WITH POTENTIAL EXPORT CLIENTS IN CENTRAL AMERICA AND
VENEZUELA IN ANTICIPATION OF PASSAGE OF THE BILL.
TEXACO HAS ALSO BEEN LOOKING AT BEING THE MAIN NATURAL
GAS SUPPLIER FOR A PROPOSED BRAZILIAN STEEL MILL IN THE
GUAJIRA DEPARTMENT.

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THE PROBLEM IN THE PRESIDENCY AND CREG

7. (SBU) UNTIL FEBRUARY MOST ENERGY SECTOR WATCHERS IN COLOMBIA FELT THAT THE LAW WAS ASSURED PASSAGE, DESPITE STRONG OPPOSITION FROM THE ATLANTIC NORTH COAST THERMAL PLANTS AND STEEL MILLS, AND FROM THE CREG. LAST FALL, THE MINISTRY OF ENERGY AND MINES, ALONG WITH ECOPETROL AND OTHER OIL ADVOCACY GROUPS, CONDUCTED EXTENSIVE EDUCATION/LOBBYING CAMPAIGNS IN THE COLOMBIAN HOUSE AND SENATE. HOWEVER, THE COLOMBIAN PETROLEUM ASSOCIATION (ACP-INDUSTRY ASSOCIATION FOREIGN OIL CORPORATIONS) CONTACTED ECONOFF IN LATE FEBRUARY TO EXPRESS CONCERN REGARDING PRESIDENTIAL SUPPORT FOR THE BILL AND ACTIVE OPPOSITION EFFORTS BY CREG DIRECTOR CARMENZA CHAIN. ACCORDING TO ACP, CONVERSATIONS WITH PRESIDENTIAL AIDES REVEALED AN APPARENT LACK OF INTEREST AND A CAVING TO THE PRO-REGULATION OPPOSITION ON THIS ISSUE. MARCH 19 PRESS REPORTS QUOTE CHAIN AS SAYING THAT IRRESPECTIVE OF FUTURE COSTS TO ECOPETROL, THE BILL AND ITS POSSIBLE EFFECTS ON CONSUMERS NEED TO BE STUDIED FURTHER. ECOPETROL PRESIDENT CALDERON CONTINUES TO BE A STRONG SUPPORTER OF THE BILL BECAUSE IF THE LAW DOES NOT PASS, ECOPETROL WOULD HAVE TO CONSIDER DEVELOPING NATURAL GAS EXPLORATION AND PRODUCTION ITSELF. SUCH A PROJECT, HOWEVER, WOULD REQUIRE A HEAVY REINVESTMENT OF CORPORATE OIL PROFITS, THUS CUTTING INTO ECOPETROL'S OVERALL CONTRIBUTIONS TO THE COLOMBIAN BUDGET (17 PERCENT IN 2000). THE CREG'S ARGUES THAT BECAUSE THERE ARE SO FEW NATURAL GAS OPERATORS AT PRESENT, LIBERALIZING PRICES WOULD CREATE A MONOPOLY SITUATION CAUSING A SHARP RISE IN PRICES. ECOPETROL'S COUNTERS

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THAT UNLESS PRICES ARE LIBERALIZED NEW PRODUCERS WILL NOT APPEAR TO PRODUCE PRICE COMPETITION.

THE MARCH SENATE SESSION

8. (SBU) THE NATURAL GAS PRICING BILL CAME UP FOR DEBATE AND VOTE IN THE SENATE ON MARCH 20 AND WAS ALMOST LOST. ACCORDING TO ACP AND ECOPETROL PRESIDENT CALDERON, OPPOSITION TO THE BILL WAS FUELED IN THE WEEK BEFORE THE DEBATE BY CREG LOBBYING EFFORTS. THE NEW

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MINISTER OF ENERGY AND MINES RAMIRO VALENCIA COSSIO
SAVED THE BILL BY REQUESTING A POSTPONEMENT OF THE VOTE
UNTIL HE HAS HAD A CHANCE TO STUDY IT FURTHER (VALENCIA
ONLY TOOK OFFICE ON MARCH 12.) AS A RESULT OF THIS
ACTION CHAIN AND ANOTHER MEMBER RESIGNED FROM THE CREG
EFFECTIVE MARCH 22.

COMMENT

8. (SBU) ALTHOUGH OIL AND GAS WATCHERS REMAIN CONCERNED
ABOUT THE FUTURE OF THE BILL, VALENCIA'S MOVE TO
POSTPONE THE VOTE, AND THE CREG RESIGNATIONS HAVE

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	PMB-00	DRL-02	G-00	NFAT-00	SAS-00	/015W	

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P 262112Z MAR 01
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC PRIORITY 0568
INFO USDOC WASHDC
DEPT OF ENERGY WASHDC
AMEMBASSY LIMA
AMEMBASSY CARACAS
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ASSUAGED GREATER FEARS OF THE COMPLETE LOSS OF THE
BILL. ACCORDING TO ACP, DURING A PRIVATE ASIDE
VALENCIA EXPRESSED HIS INTEREST IN STUDYING THE EFFECT
OF THE BILL ON ALL THE ACTORS INVOLVED, ESPECIALLY
CURRENT AND POTENTIAL INVESTORS. ACP HAS TAKEN THIS AS
A SIGN THAT VALENCIA RECOGNIZES THE COSTS THE EXISTING
PRICE STRUCTURE IMPOSES ON CURRENT PRODUCERS. CALDERON
BELIEVES THAT VALENCIA'S POSTPONEMENT WILL ALSO ALLOW
THE MINISTRY THE NECESSARY TIME TO BUILD A STRONG
CONSENSUS IN SUPPORT OF THE BILL. ACP AND OTHER SECTOR
OBSERVERS SUGGEST THAT WITH THE CORRECT APPOINTMENTS TO
THE TWO EMPTY CREG SEATS, PRESIDENT PASTRANA CAN CREATE
AN ORGANIZATION MORE SUPPORTIVE OF PRICE
LIBERALIZATION. END COMMENT.

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